

# Federal Marketing Orders: Their History and Purpose

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Today I have been asked to give a quick review of federal marketing orders with respect to their purpose and their historical underpinnings. This is probably an appropriate time and place to do so, as papayas are the only crop in Hawaii with a federal marketing order, and a referendum is currently being conducted to determine if the order shall be continued. I will address the economic rationale for marketing orders in a historical context as well as the types of economic activities that are conducted under marketing orders. Whenever possible I will try make reference to your marketing order.

## Marketing Orders Defined

A marketing order is a legal mechanism under which regulations issued by the authority of the Secretary of Agriculture are binding on all handlers of the product in a specified geographical area. Market orders are initiated by, and implemented only after approval by, the affected growers. These orders are mandatory and, because of this, different from other forms of collective action in agricultural marketing.

The Agricultural Marketing Agreement Act (AMAA) of 1937, as amended, is the legislation that enabled the formation of marketing orders (Powers Nichols 1990). The date of passage is key to understanding the original rationale for the establishment of marketing orders. At this time in U.S. history, the country was still suffering from the effects of the great depression. It can be argued that agriculture was in worse condition than the rest of the economy. Furthermore, in the case of agriculture, the farm depression actually occurred in the early 1920s.

All of agriculture was affected, but fruit farmers were especially hard hit because of large plantings coming into production. The combination of large production and very low prices generated interest in attempting to regulate the quantity and quality of fruits and vegetables marketed. Some of the larger cooperatives attempted to do this in the 1920s; long-term success was not achieved, however, because not enough producers and handlers could

be induced to cooperate. The program was strictly voluntary. It was possible for those people who did not cooperate in the voluntary program to receive many of the same benefits. They became "free riders."

A consequence of the passage of the AMAA was the ability to eliminate free riders. Fruit growers were especially interested in pursuing market orders. The nature of the crops in combination with weather can lead to wide variations in yields, grades, sizes, and maturities. This in turn can lead to the development of a poor image at the retail level, and sales and prices would suffer. The variation in yields can lead to wide price swings, which can cause economic hardships on both producers and consumers and make economic planning very tenuous.

Marketing orders can be found in almost all parts of the U.S. but are more prevalent in the West and Southeast. It is also interesting to note the percentage of total market supply covered by the market orders in fruits and vegetables. They vary from 100 percent to less than 10 percent. In 1986-1988 the value of sales of fruit and vegetables sold under marketing orders was \$4.6 billion. In the case of Hawaii, papaya production accounted for 82 percent of total U.S. supply in 1987, and all production in Hawaii is covered by the order.

Marketing orders in fruits and vegetables are big business. To a large degree this was the intention of the original legislation. The original act of 1937 was intended by Congress to be a tool for farmers. Through the use of marketing orders, orderly marketing conditions could be established with the subsequent achievement of parity prices. More often the establishment of orderly marketing is cited as the primary purpose of a marketing order. However, it is clear that the act was also intended to increase and maintain producer incomes through higher prices.

Since its original passage the AMAA has been amended several times. Subsequent amendments indicate an expansion of objectives to include enforcement of quality standards, uniformity in packaging, market and product development, and

orderly flow of marketing throughout the season(s).

We will define orderly marketing as the stabilization of price and quantity over time. If this can be achieved, producer's risks can be lowered and the flow of resources or inputs used during the production and marketing activities can be evened out. Public benefits, those not isolated to participants in the marketing order, can also be achieved. Market information, generic promotions, research, and quality improvements can also bestow benefits to the general consuming public.

Under federal marketing orders, three basic categories of economic activities can be undertaken. It is important to note that not all marketing orders allow for implementation of all activities. Which activities can be undertaken by any particular marketing order is a function of federal legislation and the original petition submitted by producers. The three basic categories of economic activities are quality control, quantity control, and market facilitating activities.

Quality control regulations can include package and container requirements and grade and size standards. Quantity-control regulations can impose shipping holidays, prorates, market allocation, reserve pools, and marketing allotments. I will not spend much time discussing quantity controls as they are not used under the papaya marketing order. Market-facilitating regulations can authorize money to be collected to fund advertising and promotion as well as production, marketing, and product research. The papaya marketing order authorizes promotion, research, and package requirements as well as grade and size standards.

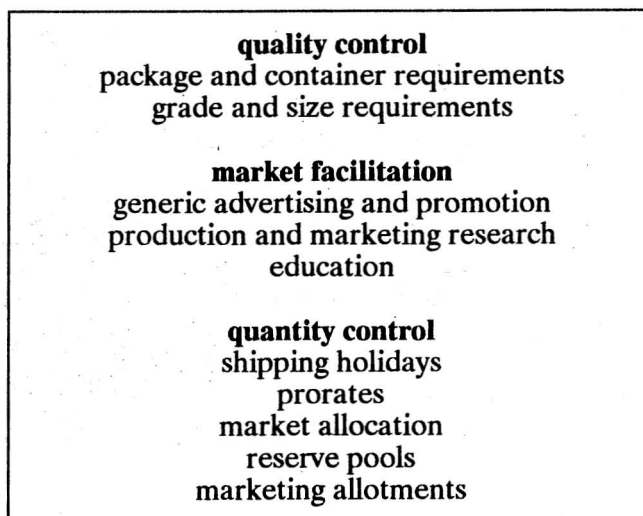
Figure 1 shows more specifically the activities possible under a federal marketing order. Since the act's initial passage and subsequent amendments, the activities allowed can be categorized as being pro-efficiency. Research has tended to focus on cost reduction in both marketing and production. Grades and sizes also facilitated the marketing of fruits and vegetables across wide distances without the need for visual inspection. To some extent, though, the activities undertaken under most marketing orders can also be categorized as enhancing product image and salability. It is clear that promotion and advertising are aimed at increasing peoples' awareness of the product and hence, increase sales.

Quality controls also are aimed at enhancing a product's image and protecting the industry's reputation. In many crops there is a temptation to

sell immature fruit so that a higher price may be attained. This strategy is short-sighted, because a poor product can ruin the market. In general, there may be temptation to sell less than superior quality, especially if a viable alternate market doesn't exist for the off-grade product. In today's fresh produce industry, with increasing competition among a growing variety of fruits and vegetables and a growing number of suppliers, lack of quality standards appears almost suicidal. It should be mentioned that quality controls can be used to affect the volume marketed in the short run. In times of gluts, standards may be increased, and vice versa when supplies are short.

### **Costs and Benefits of Marketing Orders from a Producer Perspective**

In discussing marketing orders it is useful to break down the basic costs and benefits of their implementation. First, I want to stress the mandatory nature of marketing orders. Once approved by a majority of the growers, all growers and handlers in the specified geographical area must abide by its regulations. That is, they must adhere to any quantity control, quality control, or market-facilitating regulations. This is not accidental. The need for federal legislation arose from the lack of participation when voluntary programs were attempted. The mandatory participation and subsequent elimination of free riders leads to most of the benefits and costs incurred by producers and handlers.



**Figure 1. Economic activities conducted under market orders.**

## Benefits

In Figure 2 I have identified some of the general benefits that can be attributed to marketing orders. Those specifically associated with quantity controls are not listed, as they are not relevant to your situation. I have listed elimination of free riders as number one, because it impacts the other benefits. Under the auspices of the administrative committee, producers can achieve economies of size which are unavailable to them as individuals. For instance, research can be funded that can address problems in marketing, production, and product development. For most farmers this would be impossible. It is my understanding that some of the work done on fruit flies has been funded by the Papaya Administrative Committee. Through the creation of grades and sizes requirements and packaging regulation, efficiency in marketing can be increased. Again, an individual farmer working alone would probably not be able to receive these benefits. Improved marketing efficiency can also lead to increased sales. Through an aggressive promotional program and high quality, a product's image at retail can be enhanced and, it is hoped, maintained. The implementation of a marketing order can lead to the generation of new and more varied information, which, in turn, can reduce the level of risk which a producer must face when making plans. Finally, though it is not listed, if the marketing order is successful one would assume that farmers' incomes would be enhanced and show more stability.

### benefits

- elimination of free riders
- economies of size
- research program
- efficiency in marketing
- improved image at retail
- more information
- less uncertainty

### costs

- loss of individual control
- assessment costs
- loss of flexibility

## Cost

The consequence of free rider elimination is that participants under a federal marketing order lose some of their individual decision-making power. They are required to adhere to all of the regulations as stipulated under the marketing order. This in turn reduces their flexibility. For example, a papaya producer or handler must follow the grade and size requirements. This reduces some of the options they might have otherwise faced. Finally, marketing orders require money to operate. This money is raised through an assessment. In general this assessment is small relative to the price received, but it is nonetheless a cost. Assuming the marketing order is successful, the financial costs of the assessment should be outweighed by the benefits received.

## Summary

I have purposely not covered the mechanics of implementing a federal marketing order, nor have I discussed the make-up or operation of the administrative committee. I believe this would be inappropriate at this time. Marketing orders were intended to address the economic plight of producers through the achievement of income stability and increased marketing efficiency. In many cases they have been remarkably successful. They were also intended to be essentially a self-help mechanism, although backed by legislative authority. As such, I believe, marketing orders play a vital role in U.S. agriculture. They do restrict individual freedom, but it is hard to conceive of their operation without mandatory participation. In the final analysis, one must examine the costs and benefits of implementing and maintaining a marketing order. In doing so, I believe it is imperative to have a long-run view and not just seek immediate monetary gain.

## Reference

Powers Nicholas, J. Federal marketing orders for horticultural crops. AIB-590. U.S. Dept. Agr., Econ. Res. Serv., March 1990.

Figure 2. Costs and benefits of market orders.